

BUSINESS RETENTION & EXPANSION INITIATIVE STRATEGY



PREPARED BY:

BUSINESS RETENTION AND EXPANSION LEADERSHIP AND
TASK FORCE TEAM

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**Canadian
Manufacturers &
Exporters**

Newfoundland &
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1. Introduction

The manufacturing sector is a key industry for economic growth with over 750 companies, 16,000 direct employees, and \$2.75 billion in sales. The sector is both rural and urban, is experiencing steady diversified growth, and directly and indirectly represents 15% of GDP and 40,000 employees.

Canadian Manufacturers and Exporters Newfoundland and Labrador Division (CME), in cooperation with the department of Innovation Trade and Rural Development, Human Resources Skills Development, ACOA, CNA and the NRC, performed a Business Retention and Expansion exercise to identify the needs and opportunities of the manufacturing sector and determine solutions to company retention and expansion barriers. For manufacturers, continuous improvement (CI) is a normal course of business. The first process in a proper CI environment is investigation, as decisions and strategy must be rooted in sound data and analysis. BRE provided the means for CME to collect and analyze the data upon which this strategy is formed. The strategy resulting from BRE will drive CME's mandate to assist provincial manufacturers develop into world-class companies.

Paul Griffin, member of CME Board of Directors and President, NewTech Instruments provided leadership to the initiative by undertaking the role of Chair. Additionally, each phase of the project was managed by a member of the Leadership Team: Lorne Janes of Continental Marble, Bernard Sparrow of Brookfield Dairy Products, and Mark Ploughman of Lotek Wireless. Advisors to the Leadership Team included Tom Hawco of Human Resources Development Canada and Kirk Tilley and Derek Stabilizer of Innovation, Trade & Rural Development. These government organizations, along with the Atlantic Canada Opportunities Agency, provided sponsorship to the program.

1.1. BRE Background

The Business Retention and Expansion (BRE) Initiative is an economic development tool that promotes job growth by helping communities/industries identify barriers to business growth and survival. It is a formalized, systematic, volunteer-driven process for identifying business issues and opportunities and prioritizing projects to address these needs. Several benefits result from conducting a BRE initiative:

- Community and business development become more intimately linked;
- The process helps businesses solve immediate problems;
- Existing support programs are often more effectively used;
- Awareness of community and industry groups is increased;
- As a result of the strategies and initiatives that form the BRE outcome, the general sector's competitiveness is enhanced; and,
- Business attraction efforts are enhanced.

The BRE program has two key objectives: to identify and address issues impeding growth and to identify opportunities that may allow for expansion. The process provides an opportunity for businesses to voice opinions and concerns and allows community/industry groups to identify systemic issues within a sector or region.

The program was developed by the University of Minnesota over 15 years ago and has since been implemented in over 100 jurisdictions across North America. The BRE philosophy is that existing businesses are the core of economic prosperity and the process identifies the needs of businesses so that government and non-government organizations can better service them.

In Newfoundland and Labrador, the BRE effort is coordinated through the department of Innovation, Trade and Rural Development, and to date, two pilot BRE projects have been completed – one geographic based and one industry based. Over the next three years, 24 BRE projects, supported by provincial and federal government, will be implemented in Newfoundland and Labrador. The CME Business Retention and Expansion initiative was one of the first of these 24 projects.

1.2. Methodology

BRE utilized a case study research methodology conducted by trained individuals onsite. The project was supported by a 15 person Task Force comprised of industry leaders, experts in relevant fields, and support organization representatives. The interview guideline was developed in partnership by the P.J. Gardiner Institute for Enterprise and Entrepreneurship, Memorial University of Newfoundland and the Leadership Team. The interview guideline was then pre-tested, interviewees trained, and interviews conducted. PJ Gardiner followed with a statistical data analysis, which was further developed by the Leadership Team. The results were then taken back to the Task Force to develop the themes and identify strategic initiatives. A more detailed methodological review is outlined below.

The Task Force and Leadership Team were crucial as members provided advice throughout the project, recruited volunteers, assisted with survey development, and generated recommendations for solutions. In addition to the Task Force role, each Leadership Team member also assumed the responsibility to direct a specific portion of the project. As a result of the collaboration that BRE encourages, it must be noted that between companies, interviewers, and task force members, over 150 people had a direct meaningful role in the BRE process.

The Leadership Team and Task Force were comprised of the following individuals and organizations:

NAME	COMPANY / ORGANIZATION	ROLE
		Leadership Team & Task Force
Paul Griffin	NewTech Instruments	BRE Chair
Lorne Janes	Continental Marble	Visitation Coordinator
Bernard Sparrow	Brookfield Dairy Group	Red Flag Coordinator
Mark Ploughman	Lotek Wireless	Long-term Strategy Coordinator
Derek Staubitzer	ITRD	BRE Facilitator
Tom Hawco	HRDC	Advisor
Kirk Tilley	ITRD	Advisor
Sean McCarthy	CME	CME representative
Tina Pomroy	CME	BRE Coordinator
		Task Force
Steve Hicks	CONA	Technical Manufacturing Expertise
Steven Noseworthy	NRC	Technical Manufacturing Expertise
Blake Cryderman	CONA	Education
Bill Grandy	ACOA	Government – federal
Verdun Noel	ITRD	Government – provincial
Brian Collins	PF Collins	Transportation
Annette Butt	NF Power	Human resources

BRE itself follows a five phase process:

- I. Initiation of the process by a community/industry group;
- II. Survey development and volunteer training;
- III. Firm visits and immediate follow-up;
- IV. Survey analysis and strategy generation; and
- V. Communication and implementation.

Phase 1 – Initiation of the process

In January 2003, CME was presented the opportunity to undertake a BRE initiative for the manufacturing sector. The timing of this was excellent as CME had completed a number of research pieces (i.e. Excellence Gap Analysis, Human Resource Skills Gap) that indicated a number of issues were impacting sector competitiveness. Additionally, it had been six years since the release of the report on the Provincial Small Scale Manufacturing Sector. Thus, BRE presented an opportunity to reflect on past research and develop new or modify existing strategic thinking. The Leadership Team undertook the initiative to develop the basis for a strategic planning exercise to grow the sector.

Furthermore, the Leadership Team recognized that many initiatives with good intentions fail because the recommendations are never properly implemented.

To ensure those recommendations and strategic actions would have a positive effect on the manufacturing industry, it was critical for the process to be private sector driven. With that in mind, CME solicited support from Paul Griffin (Newtech Instruments), Lorne Janes (Continental Marble), Mark Ploughman (Lotek Wireless), and Bernard Sparrow (Brookfield Dairy) to help lead the initiative. By March 2003, the Leadership Team and Task Force members were recruited and orientated to the project.

Phase 2 – Survey Development and Volunteer Training

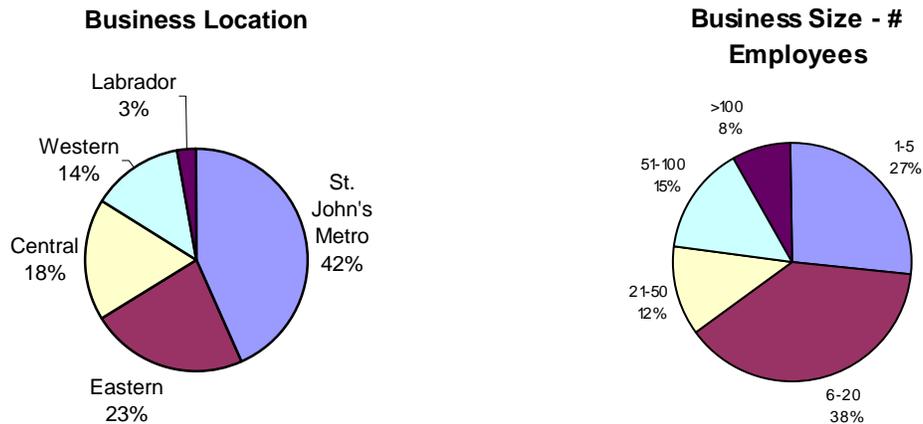
Utilizing templates from previous BRE exercises plus knowledge of manufacturing diagnostic tools, the PJ Gardiner Institute and the Leadership Team developed an interview guideline. The guideline was pre-tested and modifications made. (A copy of the survey can be found in Appendix A.) The interview guideline was structured to focus on the following key business areas for manufacturers:

- General Business Information
- Manufacturing Operations
- Markets and Marketing Strategy
- Human Resources
- Financial
- Inputs
- Technology
- Future Plans
- Growing the Manufacturing & Exporting Industry

Concurrent to survey development, Task Force members recruited volunteers from industry, government, and education to conduct interviews and volunteer training sessions were organized.

Phase 3 – Firm Visits and Immediate Follow-up

Using a stratified random sampling technique, interviewee firms representing numerous manufacturing sub-sectors and geographic regions were selected. Characteristics such as size, sub-sector, location, and CME membership were used in the sampling, and efforts were made to include fair representation from each. The diagrams below provide a profile of the interviewee firms.



Using team based interviewing, 74 manufacturers throughout Newfoundland and Labrador were interviewed from May to October. A subcommittee of the Leadership Team, lead by the Red Flag Coordinator, met regularly throughout this phase to discuss any immediate issues raised and to identify expertise required for follow-up with the company. Some examples of the immediate benefits that resulted include:

- Productivity improvement through the application of lean concepts;
- Assistance with equipment sourcing;
- Business strategy development;
- Location and plant layout advice;
- Website development;
- Human resource sourcing;
- Quality systems implementation;
- Performance indicator identification;
- Linkage to available resources;
- Government program awareness.

Phase 4 – Survey Analysis and Strategy Generation

From October to December 2003, PJ Gardiner compiled survey results and completed a summary report. PJ Gardiner then presented survey findings to the Task Force, at which point the Task Force further analyzed the outcomes. In December 2003, key stakeholders including manufacturers, government and education representatives, participated in a Task Force Retreat where issues analysis and discussions were presented. Long-term strategies were then developed and later fine-tuned by the Leadership Team.

Phase 5 – Communication and Implementation

Communication and implementation of the BRE results is ongoing. Key results have already been formally and informally communicated to

government, education, industry, and the general public. Both CME and the Department of Innovation Trade and Rural Development will use this strategy document as a basis for advocacy, policy development and programming.

1.3. Limitations to Research

As with any research, BRE had its limitations. Of the firms surveyed, relatively few of them were less than five years old or more than 20 years old.

2. SUMMARY OF FINDINGS

Throughout BRE, key themes and findings emerged from the data and interview discussion. This helped develop new thinking as well as reinforce existing thinking, setting the strategic direction, policy, and programming for CME. The following provides summary of the key findings:

1. **Ninety percent of respondents anticipate expansion over the next two years** either through growth in workforce, physical plant, equipment, product/services lines, or a combination thereof.
2. Manufacturers are conscious that to become more competitive, they must improve performance. They are aware of existing bottlenecks and indicated that **improving employee skill sets and enhancing technology are critical** to this. More attention to productivity enhancement, lean enterprise principles, and world-class manufacturing can help achieve this.
3. Manufacturers are planning a high rate of expansion, and market development was identified as one of the most significant factors for remaining competitive. Despite this, **a low propensity to export exists**. There was both a low desire to export amongst non-exporters and numerous issues (real or perceived) identified as impediments to export. Barriers identified included transportation, logistics, human resources, etc.
4. **Recruiting necessary skills is becoming more and more difficult for manufacturers**. The skills needed to remain competitive are becoming more difficult to source. This is a growing issue as less people are attracted to the sector. In addition, there was a clear need for skill development amongst existing employees as products, processes and technologies change. However, it is important to note that staff retention was high.
5. **Firms, especially young ones, are finding it more difficult to access financing**. As a result, these firms are relying more upon government funding.

3. STRATEGY

The overall mission of the BRE Initiative was to individually and collectively help manufacturing companies improve performance to enhance competitiveness and expand.

While BRE focused on a variety of specific areas relevant to manufacturers, three common themes emerged. These are: 1) mentoring, 2) awareness building, and 3) relationship enhancement. The feedback required through the BRE process, success derived from other initiatives such as Lean, and the characteristics of provincial manufacturers shape the strategies and actions resulting from BRE. From these, one-on-one guidance was identified as the key success factor for addressing many needs. As a result, particular focus will be on the development of programming that can be “pulled” via one-on-one, company specific delivery mechanisms.

3.1. Manufacturing Processes & Technology Adoption

Throughout BRE, a number of manufacturing process and technological issues were identified that limit a company’s competitiveness and growth. Upon review, the following four were considered key:

- A high proportion of firms (73%) identified that they were experiencing production constraints, thereby limiting growth. Concurrently, these firms also indicated high percentages of non-value added time (as assessed via a Toyota Production System Calculation), which indicates that productivity could be improved dramatically through continuous improvement and the application of lean enterprise models.
- Many firms were unaware of new manufacturing technologies that could be applied to increase production, improve quality, reduce lead times, and lower costs. Those who were aware had difficulty financing appropriate technologies.
- There were few incidences of documented quality management systems amongst manufacturers (58% did not have a formal quality management system in place), which impedes export development, continuous improvement, and innovation.
- There was limited use of communication technologies as related to supply chain management, which reduces market access and relationship development while increasing lead times and costs (the mean rating for importance for electronic commerce was only 3.3 out of 5).

Actions

Based on the above issues, CME in concert with the appropriate partners will focus efforts on the following policy and programming. Notably, some of this is a continuation or a renewal of previous activities while others are new.

1. Lean Enterprise Development

For the past three years, CME has introduced lean enterprise to Newfoundland and Labrador manufacturers. CME has delivered over 100 days of training on lean in 20 different locations in the province plus completed numerous firm specific consults and continuous improvements initiatives. As a result of these activities, ten firms have formed a Consortium focused on lean adoption. Through the financial support of NRC-IRAP and ACOA, CME has been able to apply internal resources to aid lean implementation.

It is estimated that approximately 3-5% of all firms are now working on adopting lean concepts. The rate at which companies are adopting lean is accelerating, however, lean enterprise needs to be further fostered amongst the whole manufacturing sector. To ensure provincial firms outpace the competition, dedicated resources are needed to manage lean as well as support from government to help promote its virtues and values.

Action #1: Continue focus on the promotion of lean enterprise and seek support to dedicate personnel and resources to lean implementation.

2. Manufacturing Technology Centre

The Manufacturing Technology Centre (MTC) was initially established as a partnership between CME, the College of the North Atlantic, and Memorial University of Newfoundland to provide technology demonstration/awareness and strategic outreach programs to the manufacturing sector. The MTC was originally funded with resources provided by federal and provincial governments. This funding was allocated to capital acquisitions and operational/outreach funds were not provided. This impeded the MTC's ability to be effective, especially given the resource constraints at the post-secondary level in the past decade.

Action #2: Partner with the College, MUN, and other key stakeholders to develop an outreach proposal that will focus on firm specific technology diagnostics, awareness, and adoption.

3. Quality Systems/Continuous Improvement

Quality Systems such as ISO or HACCP have long been seen as a key to export development. These systems help legitimize manufacturers in new markets, as they are often market or customer requirements. Additionally, these tools – if used properly – along with lean enterprise development can be powerful methods to develop continuous improvement systems within companies. Quality systems focus companies on documenting, analyzing, and monitoring the

manufacturing, customer service, and administrative systems. If done with lean enterprise as a goal and using continuous improvement as a tool, companies will drastically improve performance and market development potential.

There is a lack of formalized quality management systems existing within provincial companies. This may be due to a lack of awareness, resources, promotion, market requirement, or some combination thereof. Regardless, it is an issue that cannot go unaddressed.

Action #3: Investigate further the specific needs for quality management and continuous improvement systems for individual firms.

3.2. Market Development & Exporting

Upon review of the BRE analysis, three issues became prevalent in the area of marketing.

- Export focus remains low amongst many firms and a low propensity to export results (25% have 100% sales within the province, 43% have sales within U.S. - 59% of these have less than 10% of total sales in U.S., and 36.5% have some level of sales in other international markets). Even though no single issue ranked high as a barrier to export, many areas were identified as impediments including local market satisfaction.
- Financing export initiatives, especially through working capital infusion, was a critical concern for companies.
- Many firms experienced difficulties or perceived potential problems as they relate to the development of firm specific transportation strategy and logistics management (68.8% said transportation costs created a barrier to export, and travel costs, shipping costs, and shipping time were rated the top three most important export barriers). This effectively reduced the firm's interest in out-of-province market development.

Actions

Based on the above issues, CME will focus efforts on the following policy and programming. Some of this is a continuation of previous activities while some is new.

1. One-on-One Export Programming

Explaining at a macro level why more companies do not enter export markets is difficult, and reasons are numerous. However, exporting must be promoted further. This will require commitment of firms, development of management, and development of systems in support of exporting.

A first step in exporting is obtaining the encouragement and strategic advice that is required for export success. In larger firms, a Board of Directors can provide companies with encouragement, strategic support, guidance and networks. Few small or newer firms have this resource to access. Mentoring is another alternative sought for SME's to access expertise in all areas of business (i.e., manufacturing best practices, financing, technologies, marketing, human resources, logistics, strategic management, etc.). Due to a variety of reasons, it has been difficult to establish formalized mentorship programs in the province. The need to bring SME's together with seasoned private sector experts will remain and important issue.

As companies gain awareness and access, it is evident they do not possess the manufacturing, market service, and management systems needed to take advantage of opportunities. In fact, these developments must occur concurrently if firms are to gain accelerated access to export markets. The challenge lies in identifying the company's system impediments and overcoming resource restrictions to allow rapid deployment of export capable firms. Commitment, diagnostics, and dedicated resources capable of transforming the company are essential.

Action #1: Develop a Product to Market Forum to provide SME's with access to a formalized network of private sector experts on a regular basis.

2. Transportation and Logistics Management

Transportation and logistics have always been held up as an impediment to export and market development. This is often real, but the impediment is sometimes perceptual. To address this, CME with support from ACOA, funded the development of Transportation Directory, Logistical Management Guidebook, and Electronic Portal to assist manufacturers. These resources have recently become available and are now being circulated. The feedback to date (provincial and national) has been excellent. Little can be done to change the fact the province has transportation challenges compared to more centralized, populous markets. With proper information and a sound implementation strategy, firms can alleviate transportation issues.

Action #2: Further promote the Transportation Directory, Logistical Management Guidebook, and Electronic Portal to assist manufacturers overcome real/perceptual transportation barriers.

3.3. Human Resources

Upon review of the BRE analysis, three issues were prevalent in the area of human resource.

- While retention was not an issue, many firms experience difficulties recruiting skilled personnel, especially in the area of industrial skills. (Workforce skill development and availability of necessary skill sets were amongst the most important factors ensuring business remains competitive over the next five years. 52.8% stated the level of difficulty recruiting employees was four or five out of five. 54% stated skilled labour was difficult to recruit. Skilled trades was rated the most difficult hard skill to secure.)
- The need to continuously upgrade the skills of existing workers is becoming more evident given the progression towards newer technologies and service capabilities. (Hours of training provided for management, technical, and production staff were low: 42.8% of management, 43.7% of technical staff, and 42.6% of production staff had 0-10 hours of training per year; 59.9% of management, 78.1% of technical, and 60.2% of production staff had 0-30 hours of training per year.)
- As many of the firms are owner/operator managed and given the demographics of the sector, the need for proper succession planning became evident.

Actions

CME has been focused on human resource issues within the manufacturing sector over several years and developed a human resource development plan for the sector in 2003. This plan focused solely on the industrial skill gap. BRE illustrated the need to expand the focus to include existing employee development and succession planning.

1. Attraction of Skilled Workers

CME's previous work focused on the industrial skill gap, and work is currently being completed with regards to addressing the issue outlined. Current focus is mostly on working with the educational stakeholders on a sector basis to deal with skills and developing initiatives to attract youth to the sector. Additionally, government is now giving attention to the overall human resource needs of the province with a focus on industrial skill development.

Action #1: Continue implementation of the Industrial Human Resource Strategy

2. Human Resource Planning

The remaining two issues – existing employee skills and succession planning – can be addressed with proper development of human resource strategy within the workplace. Companies are not large

enough to hire a full-time human resource manager nor do they have the time to properly manage human resources themselves. In addition, the looming skills gap in the industrial sector has made it difficult for manufacturers to recruit, making the task more resource consuming. Proper human resource planning is necessary to improve the competitiveness, innovativeness, and productivity of manufacturers by helping them secure and build required skills.

Action #2: Develop a human resource management service through CME to offer one-on-one HR guidance to manufacturers including recruitment assistance, succession planning, “pasturing planning”, training needs assessments, training plans, etc.

3.4. Financing

Upon review of the BRE analysis, three issues became prevalent in the area of financing.

- Firms are experiencing difficulty securing financing for working capital and expansion (86% and 62% said working capital and expansion financing was difficult, respectively).
- A limited awareness of requirements for financing exists and an intermediary role between financial institutions and businesses is lacking.
- Companies are becoming dependent on government funding (96% investigated and 80% secured funding from government) – alternate sources of funding are not available or are not being exploited due to lack of awareness or lack of readiness of such alternatives.

Actions

The fact that financing appears as an issue is not a surprise – it continues to be highlighted as an impediment in most major business research initiatives within the province. Complicating this matter is that there are many issues impacting a firm’s capability in being successful at securing financing including funding source, market location, concept, management team, funding contact, history, business plan quality, timing, competitive impact, etc. It is difficult to develop a satisfactory solution. A second issue is that companies are now becoming more reliant on government as a source of funding, in particular the federal government given the constraints facing the provincial government. While the federal government is quite supportive they have to operate within a variety of guidelines (percentages, stacking, definitions, competitive impact, etc.) that sometimes hinder the ability to support. While it would be beneficial if traditional lenders were more supportive of provincial manufacturers, this is an issue that will not be solved easily.

1. Investigate Solutions

In BRE discussions, one generality could be found - companies that had good knowledge of the process and stakeholders involved, along with champions to help navigate a funding solution, were more successful in securing financing. The challenge to stakeholders is providing provincial companies with knowledge and path-finding services that will allow them to secure the necessary financing. Additionally, initiatives such as lean enterprise can free company resources (equipment, materials, plant space, people, cash) allowing growth and expansion without the need for financing.

Action #1: Organize a roundtable of financial experts to investigate possible solutions and identify success factors for financing difficulties.

2. Financing & Working Capital

The ability of firms to enter new markets is limited by their access to working capital. This issue is well documented but often programming does not go deep enough or is not flexible enough to truly deal with the issue. As well, the restrictions and payback options are often overcomplicated and arduous, making it unattractive to those in need and difficult to understand/secure.

Action #2: Work with funding providers to determine working capital financing gaps and recommend programming to overcome limitations.

4. CONCLUSION

CME, in cooperation with government, undertook BRE as a means to converse with manufacturers, understand current issues, validate present and future initiatives, develop new policy/programming to meet the needs of manufacturers, and to undertake strategic research and planning for CME's Newfoundland and Labrador Division. It has achieved all of this plus more. The following nine actions have been identified as BRE outcomes:

<i>Business Area</i>	<i>Action</i>
Manufacturing Processes & Technology Adoption	1. Continue focus on the promotion of lean enterprise and seek support to dedicate personnel and resources to lean implementation.
	2. Partner with the College and MUN to develop an outreach proposal that will focus on firm specific technology diagnostics, awareness, and adoption.
	3. Investigate further the specific needs for quality management and continuous improvement systems for individual firms.
Market Development & Exporting	4. Develop a Product to Market Forum to provide SME's with access to a formalized network of private sector experts on a regular basis.
	5. Further promote the Transportation Directory, Logistical Management Guidebook, and Electronic Portal to assist manufacturers overcome real/perceptual transportation barriers.
Human Resources	6. Continue implementation of the Industrial Human Resource Strategy.
	7. Develop a human resource management service through CME to offer one-on-one HR guidance to manufacturers including recruitment assistance, succession planning, "pasturing planning", training needs assessments, training plans, etc.
Financing	8. Organize a roundtable of financial experts to investigate possible solutions and identify success factors for financing difficulties.
	9. Work with funding providers to determine working capital financing gaps and recommend programming to overcome limitations.

BRE has validated the strength and growth potential of the sector, created a stronger, more supportive stakeholder group, and brought focus to a sector that presents strong potential for development within the province.

The strongest message that can be taken from this research is that the sector is confident and with the proper focus/supports it will continue to grow, expand, and compete as world-class manufacturers locally, nationally, and internationally.

5. IMPLEMENTATION

The preceding strategies will be executed using teams to address each of the following four areas: 1) Manufacturing Processes and Technology Adoption, 2) Market Development and Exports, 3) Human Resources, and 4) Financing. Paul Griffin will continue his role as Chair overseeing implementation. Each team will have two team leaders and will be responsible for the following:

- Identifying stakeholders;
- Identifying other team participants (this could include some of those that were on the Task Force);
- Developing an action plan, including required resources, timeline, and responsibilities.

Eight co-leaders and the Chair will comprise the Implementation Team, which will report to the CME Board on a quarterly basis. The following chart illustrates the structure of the Implementation Team.

